



Director of
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EC: Prospects for Monetary System

The ability of EC countries to compromise on the issue of how to realign their currencies strengthens the long-term viability of the European Monetary System. [redacted]

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The compromise requires West Germany to revalue its currency in the system, which will make its exports more costly. In return France has agreed to a small devaluation of the franc and to undertake a politically unpopular austerity program to help strengthen the franc. West German Finance Minister Stoltenberg has accepted President Mitterrand's assurances that the economic measures will be speedily carried out and that French ministers will coordinate with their West German counterparts on economic policy.

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Comment: The negotiations in Brussels were the most divisive since the inception of the European Monetary System four years ago. Bonn on balance is pleased with the outcome because it requires France, the weaker currency country, to make the difficult economic adjustments necessary to strengthen its currency system. For the second time in less than a year, France has changed its economic policy rather than float the franc and adopt more protectionist measures.

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Even French Finance Minister Delors, who threatened to withdraw France from the System, has to welcome the results, which have spared France the embarrassment of a large devaluation. Delors has advocated new measures to reduce inflation and cut the budget and trade deficits, and he has argued effectively against those in government who urged Mitterrand to ignore external constraints, such as the EMS.

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If West German and French consultations are successful, they could be a major step forward in the development of the EMS. Although the System was primarily designed to promote the coordination of economic policies among EC members, little progress has been achieved. Even if France's program and consultations with West Germany do prove effective, however, the difference between the rates of inflation in the two countries probably will not be narrowed enough to prevent another realignment by next year.

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HONDURAS-EL SALVADOR: Military Training Proposal

Honduras may agree to allow US-sponsored training of Salvadoran troops on its soil despite tensions with El Salvador and the risk of domestic political repercussions. [REDACTED]

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Both countries, meanwhile, are trying to resolve their longstanding border dispute. Despite Honduran suspicions that the Salvadorans are stalling, a mixed commission has made some progress. The Honduran Foreign Minister has asked the US to supply survey equipment. [REDACTED]

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Comment: [REDACTED]

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[REDACTED] An agreement to proceed would be Tegucigalpa's strongest support so far for the Salvadoran Government. Nonetheless, the Honduran Government would be concerned about possible retaliation by Honduran leftist terrorists cooperating with Salvadoran leftist insurgents. [REDACTED]

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A rapid resolution of the border issue appears unlikely. Tegucigalpa may ask for Salvadoran territorial concessions in return for cooperation on the training proposal. [REDACTED]

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VENEZUELA: Fears for Political Stability

The inability of President Herrera's administration to deal with increasing financial difficulties is creating discontent that has spread to the armed forces. []

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[] growing dissatisfaction among junior officers. According to the US Embassy, antigovernment handbills are being circulated in some military units. []

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The Embassy, however, has no reliable evidence to substantiate current rumors of coup plotting in the armed forces. In addition, no officer or group of officers has emerged to take the lead in focusing the discontent in the military. []

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The administration's prestige also is at a new low in civilian circles. Last week approximately 200 business figures issued a manifesto calling for a new government team supported by key sectors of society to deal with economic problems. The government's delay in implementing the complex exchange controls announced last month and the private sector's expectation that a more drastic devaluation may be forced on the administration have slowed business activity and spurred some panic buying by consumers.

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Comment: There is growing national concern that the government has little time to put its house in order. Herrera is increasingly isolated from the political establishment. []

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The President's own party believes he has doomed its chances in presidential elections this year. In an open break with Herrera, party leaders have called for the resignation of his chief economic adviser, Central Bank President Díaz Bruzual. []

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Despite reductions in the defense budget and a scaling back of some traditional military benefits, the country's financial straits have not yet seriously hurt armed forces personnel. Nonetheless, a more drastic downturn in the economy—accompanied by food shortages and urban unrest—could cause some officers to begin to reassess their current commitment to civilian rule. []

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USSR-CHINA: Limited Exchanges

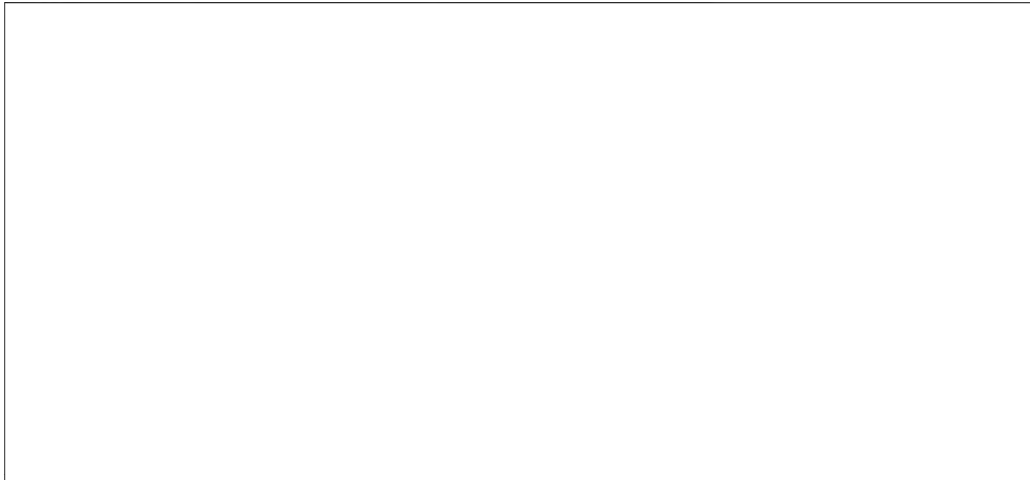
Western and Japanese media have reported that, during the last round of Sino-Soviet talks in Moscow, the Soviets agreed to send an unspecified number of industrial experts to China to assist economic modernization. The Chinese will send agricultural experts to the USSR. In addition, both sides will resume a limited exchange of students. 

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Comment: If the press reports are true, the exchanges will be the first since the USSR withdrew its remaining advisers from China in 1962. Beijing originally insisted formal agreements in nonpolitical areas had to be preceded by a favorable Soviet response to Chinese demands for progress in resolving outstanding security issues. Beijing's approval of the exchanges—presumably without formal agreements—almost certainly will encourage Moscow to believe further progress toward normalization is possible. 

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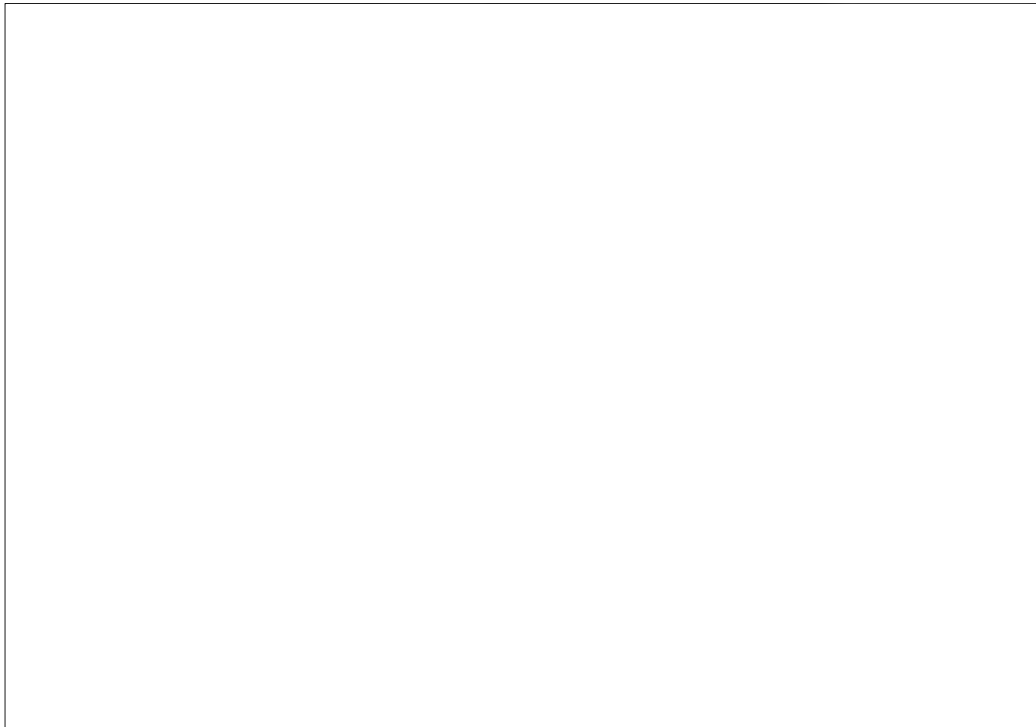
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**FRANCE: Mitterrand's Speech**

President Mitterrand, in a televised address yesterday, avoided giving any details of expected tougher economic policies. Instead, he defended the previous government's record on social issues, pledged that existing policies would be continued, and denied that a new austerity program is being considered. At the same time, however, Mitterrand promised an all-out effort to deal with inflation. 

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Comment: Mitterrand's remarks recall his performance last June, when he took a similar position only days before the franc's second devaluation. His air of detachment is designed to shift the political burden of unpopular austerity measures to Prime Minister Mauroy, economic czar Delors, and other members of the cabinet. Specific economic measures to reduce budget and trade deficits probably will be announced tomorrow after the cabinet meets. 

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USSR-HUNGARY: Ustinov's Visit

Defense Minister Ustinov, during a one-day visit on Tuesday to Budapest, held talks with Hungarian leader Kadar, the Defense Minister, and the party secretary responsible for military affairs. Warsaw Pact Commander Kulikov also attended. Soviet and Hungarian media report the talks took place in a cordial atmosphere and dealt with general bilateral relations, cooperation between the two armed forces, and international issues. The Soviet account says the two sides "exchanged opinions." [redacted]

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Comment: The characterization of the atmosphere as cordial and the Soviet reference to an exchange of opinions indicate there were some differences of view. Sources of the US military attache in Budapest say Kulikov last month tried to persuade the Hungarians to allocate more funds for defense. Although this objective may have been the main purpose of Ustinov's visit, the language of the media accounts suggests he failed. [redacted]

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POLAND: Ministerial Changes

Premier Jaruzelski yesterday replaced four ministers and appointed Lieutenant General Hupalowski to replace the civilian who has headed the organization charged with overseeing the financial and administrative practices of government agencies and evaluating their performance. Hupalowski relinquishes his job as the minister responsible for supervising local government officials to Lieutenant General Oliwa, the chief of the Warsaw Military District since 1968. [redacted]

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Comment: Both officers have long been proteges of Jaruzelski, and the changes may give him added control over the day-to-day activities of the obstreperous, often incompetent, bureaucracies. The changes again demonstrate Jaruzelski turns to military colleagues to fill important posts when he wants action. [redacted]

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LIBYA-UPPER VOLTA: Military Assistance

Libya airlifted two shipments of Soviet-made small arms to Upper Volta earlier this month that may have been distributed to units loyal to leftist Prime Minister Sankara. [REDACTED]

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[REDACTED] Libyan military advisers have arrived to provide small arms training [REDACTED]

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France and neighboring moderate states have expressed concern to US officials that Upper Volta could become more unstable and left-leaning. [REDACTED]

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Comment: The five-month-old military regime is badly split between moderates loyal to President Ouedraogo and radicals allied with Sankara. The volatile Prime Minister commands a following among junior officers and enlisted men, and, unless Ouedraogo moves soon to bring him under control, he could eventually be in a position to threaten the government. A radical regime in Upper Volta would offer Libyan leader Qadhafi increased opportunities for meddling in Niger, Ivory Coast, and Togo, which already feel threatened by Libyan-supported Ghana. [REDACTED]

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USSR-AUSTRALIA: Better Relations Welcomed

A Soviet Foreign Ministry official says the USSR is ready to discuss better relations with Australian Prime Minister Hawke. Hawke, who visited the USSR four times as a trade union leader, has announced plans to restore scientific and cultural exchanges and resume high-level official visits and other ties that Australia has banned since the invasion of Afghanistan. *Pravda* has published these remarks as well as Hawke's statement that the government needs to oversee US satellite tracking operations based in Australia more closely. [redacted]

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Comment: Although trade with the USSR has continued, Moscow will welcome the lifting of the sanctions. Despite Hawke's decision to normalize relations, however, Australia will remain deeply suspicious of the USSR. [redacted]

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CHINA-UK: Destroyer Contract Canceled

The US defense attache in Beijing confirms the Chinese have canceled a contract signed late last year for British help in modernizing destroyers. The contract—worth at least \$150 million—contained a 60-day ratification clause, which Beijing allowed to lapse. US officials in Hong Kong reported earlier that the British were to install the Sea Dart air defense missile system, sensors, radars, and electronic warfare equipment on two new Luda-class destroyers. [redacted]

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Comment: Beijing may have concluded that the acquisition of only a few missiles, without the attendant production technology, would be too high a price to pay in modernizing the Navy's air defense capabilities. The Chinese are developing their own shipborne air defense missile, and progress in that program also may have helped convince them British assistance was not required. [redacted]

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CUBA: Crop Losses

A Western embassy in Havana reports about 1 million tons of sugar were lost and nearly 40 percent of the tobacco crop was either destroyed or damaged as a result of heavy rains during January and February. Moreover, 25 percent of vegetable crops for domestic consumption were ruined, and the remaining 75 percent was damaged. Tornadoes that struck growing regions last week are believed to have caused additional destruction. [redacted]

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Comment: The crop losses could cause hard currency earnings from sugar and tobacco sales to drop by almost \$200 million, 20 percent of anticipated earnings for 1983. This would prevent Cuba from meeting trade targets established by Western creditors in the recent debt rescheduling agreement. The losses also portend increased austerity for consumers and may cause Havana to appeal to the UN for assistance in financing food imports. [redacted]

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MAURITIUS: Cabinet Resignations

The resignations on Tuesday of over half of the cabinet ministers are the result of continuing differences between former Finance Minister Berenger and Prime Minister Jugnauth, both of the leftist Militant Movement, and between Berenger and the Movement's smaller coalition partner, the Socialist Party. Berenger says that his group does not intend to resign from the Legislative Assembly and that it will maintain a watchdog role over the government's actions. The US Embassy believes Jugnauth probably will be able to form a new cabinet and command a parliamentary majority, thereby avoiding new elections. [redacted]

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Comment: Berenger's move is likely to have a negative effect on internal stability and Jugnauth's long-term prospects. It splits the government as well as the Militant Movement, whose Politburo and Central Committee are controlled by Berenger's supporters. The pragmatic Berenger has been the driving force behind the unpopular austerity measures required to obtain assistance from the IMF and the World Bank. His resignation could jeopardize negotiations for additional funding and prompt Jugnauth to intensify his efforts to obtain aid from the USSR and Libya [redacted]

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